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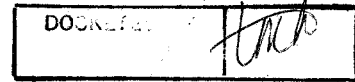
Claudine Schneider
Executive Director

Hearing Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission

DOCKETED

JUN 01 1998



Re: Docket No. RE-00000C-94-0165

Dear Sir or Madam:

Enclosed for filing are an original and ten copies of the Exceptions of the Land and Water Fund of the Rockies, the Grand Canyon Trust, and Arizonans for a Better Environment to the May 6, 1998 Recommended Opinion and Order, in the above referenced docket.

Sincerely,

Myron L. Scott
Myron L. Scott *My Rickie Dell...*

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Arizonans for a Better Environment

Encl.

***Serving the
Rocky Mountains
and Desert Southwest***



EXCEPTION

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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COMMISSIONER

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IN THE MATTER OF THE COMPETITION IN)
THE PROVISION OF ELECTRIC SERVICES)
THROUGHOUT THE STATE OF ARIZONA.)

DOCKET NO. U-0000C-94-165

**EXCEPTIONS OF THE LAND AND WATER FUND OF THE ROCKIES,
THE GRAND CANYON TRUST, AND ARIZONANS FOR A BETTER ENVIRONMENT
TO THE MAY 6, 1998 RECOMMENDED OPINION AND ORDER**

The Land and Water Fund of the Rockies (LAW Fund), the Grand Canyon Trust (the Trust), and Arizonans for a Better Environment (ABE) hereby submit their exceptions to the Recommended Opinion and Order ("Proposed Order") in the above captioned matter.

The Proposed Order addresses many of the difficult issues related to stranded costs in a thoughtful way, and to a large extent, we support it. It goes a long way in moving the ball forward towards a competitive energy marketplace in Arizona. In particular, the range of options for determination of stranded costs represents a fair and equitable balance among the positions put forth by the parties. We believe full divestiture of production-related assets will best alleviate the enormous market power of incumbent utilities, and we are not opposed to incumbents participating in the bidding for those assets.

There are, however, a couple of key issues not discussed in the Proposed Order. These issues are (1) the reflection of non-price factors in the determination of market value, and (2) the recovery of stranded costs from customers on a volumetric basis. The Commission may anticipate that these issues will be taken up in the individual stranded cost filings. This is not clear. In any event, we recommend that the Commission either specifically address them in its final order in this proceeding or clarify that it intends to deal with them on a case-by-case basis.

I. The Administrative Determination Of Stranded Costs Should Reflect Non-Price Factors In The Calculation Of Market Value.

The Proposed Order indicates that each Affected Utility shall file its choice of stranded cost recovery option within thirty days. An Affected Utility that chooses the Net Revenues Lost administrative methodology of determining stranded costs will need to include a market price in its filing.¹ Indeed, the market price is suggested as the sole element for annual true-up of calculated stranded costs versus actual stranded costs.² We believe that non-price factors should be included in any determination of market price because these factors provide real value to customers. Examples of such factors are reliability, environmental impact, name recognition, customer awareness, and the degree of effort required to switch suppliers (transaction costs). These factors are important to ensure that the calculation of stranded costs is fair and that other competitors are not disadvantaged.

Clearly, an Affected Utility, with its name recognition and long-term record of reliable service, will be able to sell energy at prices higher than will a new entrant to the market. Indeed, APS witness Dr. Landon agreed that existing firms have reputational and other advantages.³ Therefore, in an administrative determination of stranded costs, the Commission must take into account the effect of non-price factors on the market value of assets potentially strandable in a competitive market. Thus, we recommend codification of this element in the Rule Revisions through a new subsection (12) added to the list of considerations included in R14-2-1607 (I), which reads as follows:

12. The value and effect of non-price factors on the calculation of the market value element of the stranded cost definition.

In addition, another Finding of Fact should be included in the Final Order to reflect this reality which reads:

Electricity supply factors other than price have a non-zero value to customers, and an impact on the calculation of the market value element of stranded costs.

II. Recovery Of Stranded Costs From Customers Should Be On A Volumetric Basis.

The Proposed Order did not address the "how" aspect of issue number 6 of the nine issues to be resolved at this time, which reads as follows:

6. How and who should pay for "stranded costs" and who, if anyone, should be excluded from paying for stranded costs?

¹ See Proposed Order at page 13, line 8.

² Ibid. at page 18, lines 6 through 8.

³ See Dr. Landon's rebuttal testimony, page 14.

While nearly all parties to the proceeding agreed that recovery of stranded costs from customers should be on a volumetric basis, the view was not unanimous. Therefore, we believe the Final Order needs to clarify this point. The long history of electric regulation has resulted in a relatively fair and equitable spreading of utility costs to customer classes, and recovery of those costs from individual customer within those classes. Continuation of these ratemaking practices with respect to stranded cost recovery maintains current customer incentives for self-generation and implementation of energy efficiency and conservation measures. In addition, recovery of stranded costs from customers through a volumetric charge is also effectively required by Rule Section R14-2-1607 (J).

From the supplier viewpoint, a reconciliation mechanism may be needed to assure that stranded costs are not over or under-recovered, and that utilities are not given an unintended incentive to increase sales.

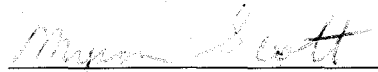
III. CONCLUSION


For the reasons explained above, the LAW Fund, the Trust, and ABE respectfully request that the Commission consider non-price factors in the market value determination of the Net Lost Revenues method of calculating stranded costs. Further we recommend the Commission codify this principle by adding a new subsection (12) to R14-2-1607 (I) which reads as follows:

12. The value and effect of non-price factors on the calculation of the market value element of the stranded cost definition.

Second, the Commission should clarify that the pre-existing equities among customer classes will be maintained by mirroring current cost-recovery practices, i.e., any stranded costs recoverable from customers in a competitive market will be allocated consistent with current practices, and the recovery mechanism designed on a volumetric basis.

Respectfully submitted this 28 day of May, 1998.



MYRON SCOTT 

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BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN

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CARL J. KUNASEK

Commissioner

IN THE MATTER OF THE COMPETITION IN)
THE PROVISION OF ELECTRIC SERVICES)
THROUGHOUT THE STATE OF ARIZONA.)
)
)

DOCKET NO. RE-00000C-94-0165

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original and ten (10) copies of the Exceptions, of the Land and Water Fund of the Rockies, the Grand Canyon Trust, and Arizonans for a Better Environment, to the May 6, 1998 Recommended Opinion and Order were sent via Federal Express to Docket Control, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007 this 28th day of May, 1998, and a true and correct copy was sent by United States mail, first-class, postage pre-paid, to the following persons:

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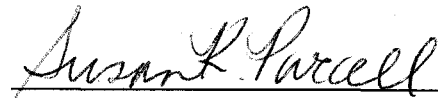
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